



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #606

Primary Aid Hold Harmless (DPI -- General School Aids and Revenue Limits)

[LFB 2003-05 Budget Summary: Page 348, #4]

CURRENT LAW

General school aids include equalization, integration and special adjustment aids. In 2002-03, \$4,200.9 million in general purpose revenue (GPR) is appropriated for general school aids. Of the total amount of funding provided, including adjustments, 422 school districts are eligible for \$4,111.4 million in equalization aid, 28 districts are eligible for \$84.8 million in integration aid and 32 districts are eligible for \$4.7 million in special adjustment aid.

Equalization Aid. The equalization aid formula operates under the principle of equal tax rate for equal per pupil expenditures. In pure form, this means that a school district's property tax rate does not depend on the property tax base of the district, but rather depends on the level of expenditures. The rate at which school costs are aided through the formula is determined by comparing a school district's per pupil tax base to the state's guaranteed tax base. Equalization aids are provided to make up the difference between the district's actual tax base and the state guaranteed tax base. Thus, there is an inverse relationship between equalization aids and property valuations; those districts with low, per pupil property valuations receive a larger share of their costs through the equalization formula than districts with high, per pupil property

The equalization aid formula is calculated using school district data (membership, shared costs and equalized valuations) from the prior school year. There are three guaranteed valuations used in the equalization formula that are applied to three different expenditure levels.

Primary Tier. The first tier is for shared costs up to the primary cost ceiling of \$1,000 per member. State aid on these primary shared costs is calculated using a statutorily guaranteed valuation of \$1,930,000 per member, and is based on a comparison of the school district's equalized valuation per member to the \$1,930,000. State aid equals the amount of costs that would be funded

by the missing portion of the guaranteed tax base. Every district receives at least the primary aid amount; primary aid cannot be reduced by negative aid generated at the secondary or tertiary aid levels. This feature is referred to as the "primary aid hold harmless" provision of the equalization aid formula.

Secondary Tier. The second tier is for shared costs that exceed \$1,000 per member but are less than the secondary cost ceiling, which is equal to \$7,230 in 2002-03. The secondary cost ceiling is set equal to 90% of the prior year statewide shared cost per member. The state's sharing of secondary costs is calculated using the secondary guaranteed valuation. The secondary guarantee is not set statutorily, but is placed at a level that generates equalization aid entitlements that are equal to the total amount of funding available for distribution. In 2002-03, the secondary guaranteed valuation is \$955,663.

Tertiary Tier. The third tier is for shared costs that exceed the secondary cost ceiling of \$7,230 per member in 2002-03. State aid on tertiary shared costs is calculated using the statewide average equalized valuation per member, which is \$353,152 in 2002-03. If a school district's tertiary aid is a negative number, this amount is deducted from its secondary aid. As noted above, if the sum of a district's secondary and tertiary aid is a negative number, this amount is not deducted from its primary aid amount.

Special Adjustment Aid. The state provides special adjustment aid to eligible districts to cushion the effect of reductions in general school aids from one year to the next. Special adjustment aid is fully funded as a first draw from the general school aids appropriation. Special adjustment aid ensures that a district's general school aid payment is no less than 85% of its prior year payment.

GOVERNOR

Delete the primary aid hold harmless provision of the equalization aid formula, beginning with aid paid in the 2003-04 school year.

DISCUSSION POINTS

1. Prior to 1996-97, equalization aid was distributed using a two-tiered formula that was similar to the secondary and tertiary levels of the current formula. Under the prior formula, minimum aids were provided to school districts which were either not eligible for equalization aid or which received very low payments per pupil. The minimum aid amount varied from \$175 to \$400 per pupil, based on a district's median household income and property tax levy rate.

2. The current three-tiered cost sharing formula was enacted in 1995 Act 27 (the 1995-97 biennial budget) and first applied to equalization aids paid in 1996-97. Under that act, minimum aids were eliminated and the primary tier was added to the formula. The primary guarantee was initially set at \$2,000,000 per member. Under 2001 Act 109 (the 2001-03 budget adjustment act),

the primary guarantee was reduced to \$1,930,000 per member, effective with the 2002-03 equalization aid distribution.

3. The primary tier of the formula was added to ensure that all school districts would receive some portion of equalization aid funding when an increase of over \$850 million was provided in equalization aid between 1995-96 and 1996-97 as the state began funding two-thirds of partial school revenues. Had the prior two-tiered formula remained in effect as the state moved to two-thirds funding, several districts would have remained ineligible for equalization aid under that formula.

4. In 2002-03, 28 school districts were affected by the primary aid hold harmless provision of the equalization aid formula. Under current law, these districts are entitled to the amount of aid generated at the primary level. Under SB 44, they would no longer be guaranteed the amount of aid determined at the primary level. They would, however, remain eligible for 85% of their prior year payment as special adjustment aid

5. Of those 28 districts, 15 received special adjustment aid in addition to the aid generated at the primary level of the equalization aid formula in 2002-03. Thus, these districts' aid amounts would not have been affected by the elimination of the primary aid hold harmless provision had it been effective in 2002-03, because they would still have received 85% of their prior year general school aid payment. Under the bill, however, these districts may eventually lose aid compared with payments they would have received under current law, if the 85% special adjustment aid payment is less than the primary aid entitlement the districts would have been eligible for under the primary aid hold harmless.

6. The other 13 districts did not receive special adjustment aid in 2002-03. Had the primary aid hold harmless been eliminated in 2002-03, these districts would no longer have received equalization aid. Instead, they would have received special adjustment aid equal to 85% of their prior year general school aids amount. For these districts, that special adjustment aid amount would be less than the primary aid generated under the equalization aid formula in 2002-03.

7. The attachment provides further detail on the 28 primary aid only districts. The attachment shows the gross aid entitlements for the three types of general aid for those districts in 2002-03 under current law and the aid the districts would have been eligible for in 2002-03 had the primary aid hold harmless provision not applied in that year. As shown, the 15 districts that received special adjustment aid under current law in 2002-03 would have lost all or nearly all of their equalization aid eligibility, but would have received additional special adjustment aid to compensate for the loss, leaving their overall aid eligibility unchanged. The 13 districts that did not receive special adjustment aid would no longer have been eligible for equalization aid, and the special adjustment aid they would have been eligible for would not have fully compensated for that loss. The equalization aid columns in the attachment show the gross change in aid entitlement attributable to the proposed elimination of the primary aid hold harmless, before consideration of special adjustment aid. The other adjustments column includes the net effect of prior year aid

adjustments and the aid reductions associated with the Milwaukee-Racine charter school program.

8. The Governor recommends deleting the primary aid hold harmless provision to further equalize the distribution of aid under the formula. The administration indicates that eliminating the primary aid hold harmless would redirect limited state school aid dollars from property-rich districts to property-poor districts, and thus better reflect the intent of the equalization aid formula to equalize the tax base among districts.

9. Had there been no primary aid hold harmless provision for the 2002-03 general school aids distribution, approximately \$2.1 million (0.05% of the \$4,200.9 million appropriation) would have been redistributed between school districts. The 13 districts previously mentioned would, in total, have received \$2.1 million less in aid, which would have been redistributed among 380 other districts. Aid payments to 33 districts would have remained unchanged. Among those districts that would have received more aid, the additional aid would have ranged from 0.02% to 0.6% of the districts' current law payments. Among the districts that would have received less aid, the aid reduction would have ranged from -0.2% to -17.3% of the districts' current law payments.

10. One could argue that, while eliminating the primary aid hold harmless provision would further equalize the distribution of aid under the formula, the statewide effect is relatively minor. One alternative for further enhancing the equalization of the distribution of aid under the formula would be to delete the statutory provisions relating to the payment of special adjustment aid in addition to deleting the primary aid hold harmless.

11. Had both the primary aid hold harmless provision and special adjustment aid provisions of the formula been deleted for the 2002-03 general school aids distribution, over \$17.0 million (0.41% of the \$4,200.9 million appropriation) would have been redistributed between school districts. A total of 381 districts would have received more aid compared to current law, while 45 districts would have received less aid. The 28 primary aid only districts identified in the attachment would all have lost aid. In addition, five districts with a per-pupil property value higher than the primary guarantee would have lost aid, while 12 negative tertiary aid districts that do not generate an equalization aid entitlement greater than 85% of their prior year payment would also have lost aid. Among those districts that would have received more aid, the additional aid would have ranged from 0.001% to 5.1% of the districts' current law payments. Among the districts that would have received less aid, the aid reduction would have ranged from -0.2% to -100.0% of the districts' current law payments, with 25 districts losing their entire aid entitlement.

12. It could be argued, however, that special adjustment aid is a feature of the formula that guarantees that all districts receive some funding from general school aids, regardless of the property wealth of the districts. Also, special adjustment aid provides some cushion to districts by guaranteeing them 85% of their prior year payment regardless of changes in conditions in the district. Further, given that 25 districts would completely lose any aid entitlement, removing special adjustment aid could be viewed as too abrupt a change for those districts.

13. When the primary tier was implemented, it was set at a level that provided an

equalization aid entitlement to every school district. Currently, five districts have a per-pupil property valuation greater than the primary guarantee and thus do not generate any equalization aid entitlement. If the primary tier is intended to recognize that every community contributes to the general fund and should thus receive some level of equalization aid, it could be argued that the \$1,930,000 million primary guarantee per pupil is too low.

14. For example, had the primary guarantee been set at \$4,000,000 per pupil for the 2002-03 aid distribution, all districts would have generated an equalization aid entitlement. Nearly \$5.7 million (0.14% of the \$4,200.9 million appropriation) would have been redistributed among school districts, with 33 districts receiving more aid than under current law and 376 districts receiving less. Aid for 17 districts would have remained unchanged. In addition to the districts that currently receive no equalization aid, most of the districts that would have received additional aid are relatively property-rich districts subject to the primary aid hold harmless provision. A few relatively property-poor districts with relatively low shared costs per member would also have received more aid. Among those districts that would have received more aid, the additional aid would have ranged from 0.01% to 726.0% of the districts' current law payments. Among the districts that would have received less aid, the aid reduction would have ranged from -0.01% to -1.7% of the districts' current law payments.

15. To the extent that increasing the primary guarantee would provide more aid to relatively property-rich districts, it could be argued that it runs counter to the intent of the formula to equalize the tax base of school districts in the state. Further, given that the primary guarantee was decreased from \$2,000,000 to \$1,930,000 per member in 2001 Act 109, increasing it would be inconsistent with recent actions of the Legislature to distribute less aid on this level of the formula. Finally, higher value school districts receive funding from state categorical aids and the school levy tax credit, which benefits property taxpayers in school districts. As a result, these school districts receive some measure of support from the state even if they no longer receive equalization aid. For example, the estimated percentage of state support of partial school revenues in 2002-03 for the school district with the lowest value per member is 86.7% while the highest value district still receives 20.9% state support.

16. In his State of the State address in January of 2003, the Governor announced that he would be forming a Governor's task force on education financing to comprehensively examine and make recommendations to reform the way the state funds K-12 education. The change to the primary aid hold harmless is the only bill provision related to the distribution of equalization aid. It could be argued that no change should be made to the primary tier of the formula as part of the budget, and that the issue of tax base equalization should be addressed more comprehensively as part of the task force's efforts.

ALTERNATIVES

1. Adopt the Governor's recommendation to delete the primary aid hold harmless provision of the equalization aid formula, beginning with aid paid in the 2003-04 school year.

2. In addition to the Governor's recommendation, delete the statutory provisions related to special adjustment aid, beginning with aid paid in the 2003-04 school year.

3. Delete provision. Instead, increase the primary guarantee to \$4,000,000 per member for K-12 districts, adjusted proportionately for K-8 and UHS districts, beginning with aid paid in the 2003-04 school year.

4. Delete provision.

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Attachment

